



## **New Issue: MOODY'S ASSIGNS A1 RATING TO THE CITY OF WHITEWATER (WI) WATER SYSTEM'S \$865,000 WATERWORKS SYSTEM REVENUE BONDS, SERIES 2012**

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Global Credit Research - 25 Apr 2012

### **A1 RATING APPLIES TO \$3.0 MILLION OF POST-SALE REVENUE DEBT**

WHITEWATER (CITY OF) WI WATER ENTERPRISE  
Water Enterprise  
WI

#### **Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
Waterworks System Revenue Bonds, Series 2012	A1
<b>Sale Amount</b>	\$865,000
<b>Expected Sale Date</b>	05/01/12
<b>Rating Description</b>	Revenue: Government Enterprise

**Moody's Outlook** NOO

#### **Opinion**

NEW YORK, April 25, 2012 --Moody's Investors Service has assigned an A1 rating to the City of Whitewater (WI) Water System's \$865,000 Waterworks System Revenue Bonds, Series 2012. Concurrently, Moody's has affirmed the A1 rating on the City of Whitewater (WI) Water System's \$3.0 million outstanding revenue bonds, including the current offering.

#### **SUMMARY RATING RATIONALE**

The bonds, which are secured by the net revenue pledge of the city's water system, will finance the system's automatic meter reading system and improvements to the city's water system. The A1 rating reflects the city's customer base concentration, satisfactory legal provisions, healthy financial position reflecting a sizeable rate increase approved in November 2011, and manageable debt burden.

#### **STRENGTHS**

- Stable customer base, including institutional presence of University of Wisconsin-Whitewater campus
- Prudent legal provisions

#### **CHALLENGES**

- Concentrated customer base, with two largest customers comprise 27.4% of revenues in fiscal 2010
- Rate increases require approval of state agency
- Recent declines in working capital and unrestricted cash

#### **DETAILED CREDIT DISCUSSION**

#### **SATISFACTORY LEGAL PROVISIONS**

The bonds are obligations of the Whitewater Water System and debt service is payable from net water service revenues. Water service revenues are primarily derived from water rates and impact fees. Legal provisions include an open loop flow of revenues, a rate covenant of 1.2 times current annual debt service, and an additional bonds test of 1.2 times maximum annual debt service (MADS). The reserve requirement is a standard three prong test of equal to the lesser of MADS, 1.25 times average annual debt service, or 10% of par on all outstanding bonds. Additional security includes the city's pledge to cure deficiencies for reasonable costs and services should the systems revenues fall below the pledged 1.2 times Annual Debt Service Requirement, though this pledge is subject to appropriation. We believe the security features of the bonds are satisfactory.

#### STABLE FINANCIAL POSITION DESPITE INFREQUENT RATE INCREASES

We expect the system will maintain a satisfactory financial position given increasing operating revenues due to a sizeable rate increase, steady operating expenditure, and satisfactory debt service coverage margins. Rate increases are subject to the approval by the Public Service Commission (PSC) of Wisconsin, which may sometimes cause delays in implementing needed rate increases, though the city has not had significant problems to date. Favorably, the city received approval to increase water rates by 20.5% in November 2011 after a smaller 3.8% rate increase was implemented in December 2009. Prior to December 2009, the utility had not implemented a rate increase since 2004 which led to declining net revenues, including a 28.3% decline between 2008 and 2009. The increase to rates in December 2009 increased net revenues from \$503,000 in fiscal 2009 to \$520,000 in fiscal 2010.

Despite the lack of frequent rate increases, the system's key ratios have remained strong and are expected to improve as expansion of the system continues. Fiscal 2009 showed a marked weakening of the system's key ratios, however, some of the ratios improved in 2010 after the implementation of the 3.8% rate increase. The water system's operating ratio grew steadily from 43% in fiscal 2005 to 64.7% in fiscal 2009. The December 2009 rate increase led to a marginally improved operating ratio of 64.2% in fiscal 2010. While net working capital has historically been strong, it declined from 168.1% in fiscal 2008 to 15.2% in fiscal 2010 due to the use of unrestricted cash to fund part of the automated meter reading project. The more sizeable 20.5% increase implemented in November 2011 is expected to lead to even stronger coverage ratios and rebuild liquidity. The city is in compliance with its informal policy of maintaining a reserve balance of three months of operations and maintenance.

#### STRONG GROWTH IN CUSTOMER BASE WITH AMPLE CAPACITY

We expect the city's water system will continue to grow as the community continues to mature. Development has continued throughout the economic downturn. The city's tax base benefits from the institutional presence provided by the presence of the University of Wisconsin at Whitewater. The city is favorably located 45 miles southeast of Madison (general obligation rated Aaa/stable outlook) and 55 miles southwest of Milwaukee (rated Aa2/stable outlook). The local economy is dominated by the UW-Whitewater campus and, while the university's property is tax-exempt and consequently unavailable as a taxable resource, the university is the city's largest employer with 1,500 full-time employees and has an enrollment of approximately 11,600. Despite recent aid cuts to the state's university system, the Whitewater campus is expected to continue to expand, albeit at a slower pace than over the last several years.

Demand for water, which has somewhat moderated due to efficiencies at top users, is more than capable of meeting requirements, with treatment capacity of 7.2 million gallons per day (MGD) compared to average demand of 1.7 MGD and peak demand of 3.2 MGD. The city's water supply is provided through ground water. The city's top ten water users comprise 59.3% of total water usage, with the top two comprising 52.0% alone. The city's top two customers are LS Power, a subsidiary of Cogentrix Energy, a natural gas fired power peaking plant and the University of Wisconsin-Whitewater, who are on complementary demand cycles. LS Power, however, is a larger water user, demanding 36.4% of water production and comprising 16.6% of total operating revenue. Demand by the power company is higher during summer months, the same time which demand drops from the University. Both institutions have demonstrated relatively stable usage. LS Power's water usage is largely for steam generation.

#### MODEST DEBT POSITION WITH PLANNED BORROWING AND RAPID DEBT RETIREMENT

The utility's debt burden is expected to remain manageable given its average rate of principal retirement and limited future borrowing plans. The debt ratio, at 13.4% in fiscal 2010, is average and principal amortization is rapid with 79.2% of principal retired in 10 years. The system has no variable rate debt or derivative agreements outstanding. Officials report similar plans for additional debt in 2013 for utility improvements.

#### WHAT COULD MOVE THE RATING - UP

- Substantial improvement in debt service coverage
- Large increases in net working capital and liquidity
- Strong expansion of customer base

#### WHAT COULD MOVE THE RATING - DOWN

- Deterioration in annual debt service coverage below similarly rated enterprises
- Significant leveraging of net revenues above affordable levels

#### KEY STATISTICS

Number of water accounts (fiscal 2011): 3,693

Fiscal 2010 debt service coverage: 1.58 times

Fiscal 2012 pro forma debt service coverage: 2.33 times

Payout of Principal in 10 years: 79.2%

Debt Ratio: 13.4%

Fiscal 2010 Operating Ratio: 64.7%

Post-sale revenue debt outstanding: \$3.0 million

#### PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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